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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
CAPITOL WATER CORPORATION FOR) CASE NO. CAP-W-06-1
AUTHORITY TO INCREASE ITS RATES AND)
CHARGES FOR WATER SERVICE IN THE) SUPPLEMENTAL COMMENTS
STATE OF IDAHO) OF THE COMMISSION STAFF
_____)**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Cecelia A. Gassner, Deputy Attorney General, submits the following supplemental comments in this matter.

BACKGROUND

Staff filed its Comments in this matter on October 12, 2006, in response to the Notice of Modified Procedure and Notice of Public Workshop issued on September 6, 2006. Order No. 30124. Capitol Water Corporation (“Capitol Water” or the “Company”) filed reply comments on October 26, 2006.

STAFF SUPPLEMENTAL ANALYSIS

Capitol Water Corporation filed Reply Comments in this case on October 26, 2006. The Company's Reply Comments accept or concur with most of the Staff Adjustments previously filed in Staff Comments on October 12, 2006 and expands on others. The Company proposed

two additional expense adjustments and identified the revenue issues to be decided. These Staff Supplemental Comments are intended to provide the Commission with the revenue requirement impact of the additional adjustments presented by the Company and explain the proper treatment for the revenue adjustments in this case for revenue requirement purposes. The changes discussed should be evaluated using the Staff recommendation in the original Comments as the starting point with a revenue requirement of \$619,610 and a percentage increase of 28.47% in revenues.

The Company identified two additional expense adjustments. The first reflects the ongoing cost to inspect, service and maintain the standby generator and proposes to treat these as a normal operating expense in this case and stop paying for these expenses from surcharge revenues. These expenses and any associated taxes from the increased revenues will be accounted for as part of the normal business operation rather than the surcharge. The rationale is consistent with the Staff adjustments for PCA surcharges and phosphate purchases. If accepted by the Commission, this adjustment increases the revenue requirement by \$1,718 for an incremental increase of 0.36%. The second expense adjustment is a proposal to amortize and include rate case expenses in the final revenue requirement. The \$3,588 amortized over three years results in an expense increase of \$1,195. The incremental revenue requirement increase for the rate case amortization is \$1,554 or 0.33%, if accepted.

There are three revenue issues to be decided by the Commission. The first is the normalized revenue adjustment proposed by Staff in its comments. The second is the Staff proposed elimination of the hydrant tariff and the treatment of revenues for this change. And the third is the computer programming and billing error associated with the surcharge for metered customers. All of these revenue issues have been further explored by Staff and the Company and the final Staff evaluations have been accepted by the Company's consultant, Bob Smith.

Subsequent to filing its comments, the Staff discovered that the prior tariff had omitted identifying the minimum allocation of water included in rates for its metered customers. This resulted in the Staff adjustment to customer revenues being incorrectly calculated. This adjustment should be removed, increasing the revenue deficiency by \$6,493. The net revenue increase is 2.13%.

The Staff proposal to remove the hydrant tariff was accepted by the Company. The hydrant tariff revenues of \$4,788 collected during the test period will now be received from other customer groups. Since this will be a change in the source of revenue and not new revenues,

there is no gross-up for taxes as shown in the Reply Comments. The redistribution of revenues will occur as part of the rate design.

The computer programming and billing error was discovered by Staff when reevaluating the customer revenue adjustment discussed above. The computer formula for calculating the surcharge on metered bills was incorrectly programmed resulting in an over collection of \$21,553 from metered customers. The error has been corrected and the Company will continue to work with the Staff to properly return the over collection to the proper customers with the resolution filed with the Commission. The correction of the over collection from metered customers will not change the revenue requirement. The correction will redistribute the revenue requirement to the proper customers consistent with the tariffs.

The cumulative revenue requirement, if all the proposed adjustments are accepted by the Commission, is \$624,713. This is a revenue increase of 31.3% above test year revenues. The elimination of the hydrant tariff and correcting the computer programming billing error redistributes the revenues resulting in an increase of 38.99% above the currently approved tariffs. After further analysis, the Staff proposes a revised tariff that addresses and includes this minimum allocation.

To meet the revenue requirement of \$621,713, Staff has applied a weighted average increase of rates to establish the correct allocation of revenue from overall company revenue and rounded the tariff charges. The tariff proposed by Staff, and attached to these supplemental comments as Attachment A, results in an overall increase of 38.75% due to the rounding of rates over the Company's prior tariff rates as adjusted for the billing error.

STAFF RECOMMENDATIONS

The Staff would like to amend its prior recommendations Nos. 1 and 6 to read as follows:

1. Staff recommends increasing revenues by \$148,908 or 31.3% to recover the revenue requirement of \$621,713, if all adjustments are accepted.
6. Staff recommends that the Company file tariffs incorporating Staff's recommendations for Schedule No. 1 (non-metered Customers), Schedule No. 2 (Metered Customers) and Schedule No. 4 (Fire Sprinkler Systems and/or Inside Hose Connections) as described in the rate design set forth in Exhibit A attached to these supplemental comments.

Respectfully submitted this ^{20th} day of November 2006.



Cecelia A. Gassner
Deputy Attorney General

CG:umisc/comments/capw06.1 supplemental

Table 1: Current and Proposed Base Rate Design

Schedule	Current Tariff	Company Proposed Tariff		Staff Proposed Tariff	
		Monthly Flat Charge	Monthly Flat Charge	Monthly Flat Charge	Monthly Flat Charge
1					
Flat Rate	3/4"	\$ 8.65	\$ 10.57	\$ 12.10	
	1"	\$ 10.45	\$ 12.77	\$ 14.50	
	1 1/4"	\$ 11.66	\$ 14.25	\$ 16.20	
	Additional Summer Charge May-Sep	\$ 11.07	\$ 13.53	\$ 15.40	

Schedule	Service Size	Current Tariff		Company Proposed Tariff		Staff Proposed Tariff	
		Monthly Minimum Charge	Commodity Charge	Monthly Minimum Charge	Commodity Charge	Monthly Minimum Charge	Commodity Charge
2	3/4" and Smaller	\$ 5.54	First 1,000 ft ³ : \$0.85 per 100 ft ³	\$ 6.77	First 1,000 ft ³ : \$1.04 per 100 ft ³	\$ 7.70 (Includes 700 ft ³)	First 1,000 ft ³ over minimum charge: \$1.18 per 100 ft ³
		\$ 7.78	Second 1,000 ft ³ : \$0.48 per 100 ft ³	\$ 9.51	Second 1,000 ft ³ : \$0.59 per 100 ft ³	\$ 10.80 (Includes 1,000 ft ³)	Second 1,000 ft ³ over minimum charge: \$0.67 per 100 ft ³
		\$ 11.37	Remaining ft ³ : \$0.36 per 100 ft ³	\$ 13.90	Remaining ft ³ : \$0.44 per 100 ft ³	\$ 15.80 (Includes 1,600 ft ³)	Remaining ft ³ over minimum charge: \$0.50 per 100 ft ³
		\$ 19.62		\$ 23.98		\$ 27.30 (Includes 3,800 ft ³)	
Metered Customers	1 1/2"	\$ 35.20		\$ 43.02		\$ 48.90 (Includes 8,100 ft ³)	
	2"						
	3"						

Schedule	Service Size	Current Tariff	Company Proposed Tariff	Staff Proposed Tariff
3	Fire Hydrant	Monthly Flat Charge \$ 2.34 per Hydrant	Monthly Flat Charge \$ 2.86 per Hydrant	Monthly Flat Charge N/A

Schedule	Service Size	Current Tariff	Company Proposed Tariff	Staff Proposed Tariff
4	Fire Protection	Monthly Flat Charge	Monthly Flat Charge	Monthly Flat Charge
	3"	\$ 6.08	\$ 7.43	\$ 8.50
	4"	\$ 8.50	\$ 10.39	\$ 11.80
	6"	\$ 19.43	\$ 23.75	\$ 27.00
	8"	\$ 31.56	\$ 38.57	\$ 43.80
	10"	\$ 48.50	\$ 59.27	\$ 67.30

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 20TH DAY OF NOVEMBER 2006, SERVED THE FOREGOING **SUPPLEMENTAL COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-06-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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